



THE CHAIRMAN

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

October 2, 2001

The Honorable John D. Dingell
Ranking Member
Committee on Energy and Commerce
U.S. House of Representatives
Room 2322, Rayburn House Office Building
Washington, D.C. 20515-6115

Dear Congressman Dingell:

This is in response to your letter of July 30, 2001, to acting Chairman Unger regarding the General Accounting Office report, Securities Investor Protection: Steps Needed to Better Disclose SIPC Policies to Investors (GAO-01-653, May 25, 2001). We share your and SIPC's concerns regarding brokerage firms that engage in systematic or pervasive unauthorized trading, and welcome the opportunity to explore creative approaches to addressing the problem.

Please be assured that the Commission treats such allegations with the utmost seriousness. When the Commission finds, based on staff investigation, that systematic or pervasive unauthorized trading has occurred, we seek significant sanctions, including: revoking the broker-dealer's registration, effectively putting it out of business; ordering that the broker-dealer cease and desist from violating the securities laws; seeking a federal court order permanently enjoining such activities; disgorgement of ill-gotten gains; and civil monetary penalties. In some cases, we also make referrals to federal or state criminal authorities.

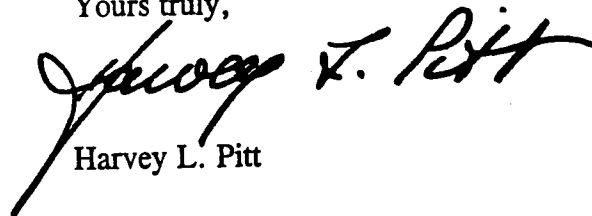
While these sanctions sometimes are imposed through settlement agreements with broker-dealers, it is not uncommon for a firm to exercise its right to contest charges of wrongdoing. In these situations, the imposition of sanctions is delayed until completion of the litigated proceeding. Thus, in urgent circumstances, such as when systematic or pervasive unauthorized trading is *ongoing*, the Commission will seek a temporary restraining order or preliminary injunction in federal court ordering that a broker-dealer immediately cease violating the securities laws. The Commission employed this remedy in its 1997 action against Sterling Foster & Company, Inc., among others.

You also asked how many firms or branch offices are engaging in systematic or pervasive unauthorized trading. It is difficult to answer this question; however, I assure you that whenever the Commission becomes aware of such activities, or allegations of such activities, we open an investigation and take appropriate actions if the allegations are substantiated. In a number of cases, where broker-dealers have engaged in

such activities, we open an investigation and take appropriate actions if the allegations are substantiated. In a number of cases, where broker-dealers have engaged in unauthorized trading and other sales practices abuses, the Commission has revoked firms' registrations, including Sterling Foster & Company, Inc., M. Rimson & Co., Inc., A.R. Baron & Co., Inc., and Wellshire Securities, Inc. Over the last fiscal year, we brought 34 cases against broker-dealers for committing fraud against a customer.

Finally, your letter requests that the GAO include a review of excess SIPC insurance coverage in its follow-up report and welcomes the Commission's views on this issue. I have asked the Commission's Division of Market Regulation to study the matter and will keep you apprised of any significant findings.

Yours truly,

A handwritten signature in black ink, appearing to read "Harvey L. Pitt", is written over the typed name.

Harvey L. Pitt

cc: The Honorable W.J. "Billy" Tauzin, Chairman
Committee on Energy and Commerce

The Honorable Michael G. Oxley, Chairman
Committee on Financial Services

The Honorable John J. LaFalce, Ranking Member
Committee on Financial Services

The Honorable Richard A. Baker, Chairman
Subcommittee on Capital Markets, Insurance and
Government Sponsored Enterprises
Committee on Financial Services

The Honorable Paul E. Kanjorski, Ranking Member
Subcommittee on Capital Markets, Insurance and
Government Sponsored Enterprises
Committee on Financial Services

Mr. Michael E. Don, President
Securities Investor Protection Corporation